IG Group plc

H1 Results

Tuesday 24th January 2017

Paul Mainwaring, Chief Financial Officer

Good morning everyone and welcome to the IG Results presentation for the six months period to the end November 2016.

For those of you who don't know me I'm Paul Mainwaring I'm the CFO of IG and I'll be taking you through the usual overview of our financial performance and financial position. And then Peter will take you through more detail on the performance and development of the business and our views on the rapidly changing regulatory environment.

After that for those in the room there'll be a chance to ask questions and Kieran McKinney our head of investor relations who you all know very well will coordinate that session.

I would like to thank Kieran who has fronted the last two sets of results, whilst the Group was between permanent CFOs and continues to lead our external communications and relationships with investors and analysts. And if you do have any particularly difficult questions then do please address them to Kieran.

Before I start I'd just like to draw your attention to the disclaimer on page 2 of the slide pack. So the first slide for me on page 4 summarises the results for the first half of the financial year and I'm pleased that my first presentation of results for the business shows a continuation of the Group's strong performance with good growth in revenue and in profit despite the ongoing investment in initiatives to drive future growth.

Net trading revenue of £244.9m is 14% higher than in the first half of the prior year with profit before tax up 7% at £105.2m. The profit after tax was £83.3m, up 9% and our diluted earnings per share were 22.55 pence, 8% higher than for the first half a year ago. We continued to generate good cash flows from our profits with £93.9m of own funds generated from operations in the first half.

We will pay an interim dividend of 9.42 pence per share on 3rd March to shareholders on the register on 3rd February. That level of dividend is in line with our policy of paying as an interim dividend 30% of the amount per share paid for the previous full year.

If we look at the make-up of the income statement for the first half compared with the same period a year ago on page 5, the £30m or 14% increase in net trading revenue reflects the continued strong growth in the number of active clients. The number of unique active clients was up 22% with the revenue per client down 6%. That decline in the average revenue per client is driven by changes in our product mix: the revenue per client in the OTC leveraged business is around 1% higher than it was in the first half last year.

Net operating income of £243.5m is £33m or 16% higher than a year ago, a slightly higher rate of increase than in net trading revenue which reflects a lower level of betting duty. We expect betting duty to average out over time at around 2% of net trading revenue but the charge in any one period does vary around that level.

Net interest income on client money was little changed. The rates we earn on client money do continue to come down. That effect was offset in this first half by the growth in the client money balances. We expect to earn a little less interest on client money in the second half than we did in the first.

Operating costs have increased by £26m or 23% with over half of the absolute increase reflecting the higher investment in marketing which we will discuss in more detail throughout the presentation.

The effective tax rate for the year to May 2017 is estimated to be 20.8% and that rate has been applied to the profit for the first half. The effective rate is slightly lower than the rate for the year to May 2016 which reflects a slight reduction in the average rate of UK corporation tax applicable for us this year.

Profit after tax is 9% higher and diluted EPS is up 8% with a small increase in the weighted average number of shares included in the calculation, which relate to employee share schemes.

If we look at the revenue in a little more detail this slide on page 6 shows you the bridge, if our revenue has changed, firstly from the first half last year to the second half last year and below that from the second half last year to the first half this year. The important message from this is that the growth in revenue is driven by growth in the number of active clients and that is shown by half year in the chart on the right and by the revenue from new clients who trade for the first time in any period. In the first half of this year the revenue from clients who traded with us for the first time was £31.9m and that compares with the marketing spend in the first half of £35m.

The slide on page 7 shows you the breakdown of revenue and the number of active clients by region and once again, and this is the third consecutive results presentation that we've achieved this, the revenue and active clients are up in all regions. These measures do include all clients and show that 6% decline in average revenue per client. As I noted earlier if we strip out the stockbroking-only clients and Nadex clients, both of which have grown strongly and both of which are businesses with a lower level of revenue per client than the average, then the revenue per client is up by around 1%.

We are reviewing how best to present the client numbers and revenue metrics to give more visibility on the drivers in the different product markets that we operate in but without making it too complicated and without losing clarity on the overall picture and we will come back on this at the prelims in July.

The detailed make-up of our operating costs is shown on page 8. As I noted earlier our operating costs in total in the first half are up by £26m or 23% compared with the first half of the prior year, with over half of that absolute increase reflected in the higher investment in marketing which has been successful in driving client recruitment. Peter will take you through some of the metrics we use to assess and manage our marketing spend in a moment.

If we strip out our marketing spend our other operating costs have been increasing in line with the change in net trading revenue and that holds both for the first half this year and for the full year last year.

The increase in our remuneration costs does reflect our higher headcount in our client-facing, sales, account opening and client service functions and in operational control functions, as well as the introduction of flexible benefits and some salary increases after a benchmarking exercise.

The increase in market data and communications costs are driven by the higher level of client activity. The increase in depreciation is primarily due to the investment being made in office modernisation which will allow more flexible working.

We said at the prelims that we expected the absolute rise in total operating costs, including marketing this financial year, to be in line with the increase last financial year when operating costs increased by £35m.

As we noted in the pre-close statement the total costs in the first half are higher than that guidance would suggest, largely because we have not restricted our marketing investment to an absolute number; we have continued to invest in marketing so long as the cost per client first trade does not increase.

On looking at the full year it is likely that the costs in the second half will be around the same as in the first half but with an additional £5m to reflect a full six months of daily FX including the amortisation of the asset and an additional £6m or so for the FSCS levy which is charged in full in the second half.

Moving on from the income statement and costs I want to take you through capital and cash. In my opinion no financial presentation is complete without a balance sheet and this slide on page 9 shows the summarised internal presentation of the balance sheet at the end of the period compared with last year end and the previous half year. This internal presentation highlights the key lines that we manage: fixed assets, liquid assets, own funds and our net assets which is equal to our shareholders' funds and our capital employed.

Our total net assets have increased by £85m compared with a year ago and by £18m compared with the year-end and that primarily reflects the profit that we have retained over those periods plus the benefit of the change in exchange rate in this latest half year.

Compared with a year ago our Own Funds are £46m higher with a £35m increase in Fixed Assets, largely due to the purchase of daily FX which is reflected in the increase in intangible assets at the end of November.

I'll talk about cash flow, liquid assets and liquidity in a moment, but firstly the regulatory capital position for the Group overall is shown on this slide 10. As you know we have to adjust our shareholders' funds to determine our regulatory capital resources, we can't include intangible assets and certain other assets and we adjust for the dividend.

We then calculate our capital ratio as our regulatory capital resources divided by the risk exposure amounts, the market and credit and operational risk, all calculated in accordance with the Pillar 1 rules and this gives a capital ratio of 29.2% at the end of November.

Our minimum capital requirement is set periodically by the FCA through what is called Individual Capital Guidance. That guidance is reviewed every three years and is based on the FCA's review of our internal assessment of our capital requirements. The Individual Capital Guidance was adjusted in August last year and we are now required to hold capital, in addition to the Pillar 1 minimum, of 9.4% of the risk exposure amounts compared with the previous requirement of an additional 5%.

That increase in the capital guidance primarily reflects an increase in the level of market risk that the group will face as the take up of limited risk accounts increases over the next few years. And as the slide shows we continue to hold substantially more capital than the minimum requirement.

Coming back to cash and liquidity this slide 11 shows on the left-hand side the usual analysis of the movement in Own Funds which is the measure that we use for our cash flow. The Own Funds generated from operations at £93.9m in the first half are 8% higher than in the first half last year in line with the increase in profit.

The level of capex is much higher in the first half than in previous recent periods due to the purchase of daily FX. The £29.8m from the cash flow reflects the US $36m that we have paid and the balance of US $4m will be paid at the end of April this year.

We paid the £84.1m final dividend for the last financial year during the first half of this financial year and our Own Funds balance at the end of the period is therefore a little lower than at the year-end.

On the right-hand side we show our analysis of liquidity starting with the total liquid assets per the balance sheet and then adjusting for the amount within that balance that at the end of the period are being deployed as broker margin requirement, are being held in non-UK entities and are held within client money, which gives us our total available liquidity which is one of the key measures for us internally.

From that available liquidity we need to maintain a liquid assets buffer and we earmark the amount that we’re going to pay as dividend and any amounts that we’ve drawn down on the RCF. We seek to manage our available liquidity to ensure that we will be able to meet our potential liquidity requirements and particularly to fund broker margin with our hedging counterparties which, as this slide shows, slide 12, the last slide from me, has been at much higher levels throughout the first half than in the preceding 12 months.

Our margin requirement peaked at £320m in October and was at or above £300m on six days during the half. The average margin requirement during the first half was £264m, more than £50m higher than the average for the year to May 2016. That increase in margin requirements is not surprising, we have more clients, undertaking more trades, markets have been reaching all-time highs and the weakness of Sterling has increased the value of the margin required derived from non-Sterling instruments.

It is these factors together with the potential spikes in margin that can arise from events like the EU Referendum and the US Election that have led us to draw down on the RCF at various times during the half year. At the end of the period we had £50m drawn down in advance of the Italian Referendum in early December and that amount has since been repaid.

Peter over to you.

Peter Hetherington, Chief Executive Officer

Thank you, Paul. As Paul said, it was a good half year, we had record revenue, record active clients and record client sign up rates. However, we clearly live in interesting times.

I first presented our financial results as permanent Chief Executive only 12 months ago, it feels like a lifetime ago truthfully. Much has changed in that time, both internally and externally. Externally the UK has decided to leave the EU and President Trump has just taken office.

Internally, whilst the industry has been facing into challenges like MiFID II and EMIR for some time it's now facing significant additional regulatory change in the UK and Europe and perhaps further afield.

A year ago I presented my strategy for the business to you. It remains exactly the same today. We are transitioning the business towards active and sophisticated financial trading and investing. You'll recall the chart we did on the right-hand side of this slide a year ago, nothing's changed in that, we just continue to move forward on that basis. And IG's been on a journey now for many years. If you go back 20 years, when I was relatively new here, sports spread betting absolutely dominated what we did as a business, fully two thirds of all the trades we took on any day were sports spread bets.

If you look ten years ago we only had offices in the UK, Australia and Singapore and we still operated a sports fixed odds and spread betting business. We closed our sports business five years ago. Two years ago we launched our stockbroking offering and last year we launched our limited risk account, on which more later.

I'm pleased to say we've now received our investment licence in the UK. We plan to launch our passive portfolios of ETFs using a robo-adviser in partnership with BlackRock who provide the asset allocation research, shortly. This will include fractional allocation along with automatic rebalancing which requires a full advisory and discretionary licence. Obviously we're not expecting any significant cross sell from clients who open with us wanting a passive investment into a self-directed leveraged account, but we do think this product will allow existing clients to move a greater proportion of their wallet to us and should aid client longevity.

Our incremental cost of offering this product is low as it uses all of our existing tech stack. This development is a further reinforcement of our expertise in financial technology and truthfully IG is a FinTech success story. This is a key step in our evolution in offering platforms for active traders and investors.

Although leverage trading remains at our core our suite of products is evolving, including these longer term products that build a deeper relationship with our clients. As part of this transition we've taken the decision to stop offering our Sprint product globally. Sprints is the up/down binary product we've historically offered generally across reasonably short timeframes. Current clients like it and some chose IG on the basis that it was part of the product suite, so we're going to continue offering it to existing clients but not to new clients. Our view is that it's hard to argue that it fulfils a genuine trading need and it no longer fits with where the company is heading. We're likely to be moving ahead of the regulators here and we expect restrictions to be introduced on this product in the near future.

Looking at slide 15 now, Paul took you through a lot of numbers so I'm not going to dwell on them, except to say revenue was up by 9%; and in terms of trajectory it's worth noting that Q2 was 17% ahead of Q1. Clients were up by 30% and first trades more than doubled in the UK, but worth remembering the UK performed very well because of Brexit in the early part of the period.

The UK is also where we're transitioning most rapidly and we plan to launch our investment product soon. You can see on the graph on the right the growth in revenue from multi-asset clients. The table shows you the percentage of our revenue that comes each month from clients who have dealt at any time on both a leveraged and a non-leveraged account. Our hypothesis is that clients become stickier as they move more of their financial activities to us.

On regulation we thought it was worth a slide all of its own. It's worth starting by saying that we agree entirely with the FCA's intentions, there are too many regulated firms in this country, a number of them are poorly capitalised and many of them are behaving poorly, and this is before you even consider the 130 operating into the UK on an EU passport, not to mention any number of illegal offshore operators. Client outcomes are often suffering as a result, albeit complaint numbers, particularly about the established onshore operators, are low.

IG has always sought to operate to the highest regulatory standards and we would like to see other firms being forced to do likewise. Our commitment to regulatory compliance and fair client outcomes is what has enabled IG to build the leadership position we hold today. Looking at what the FCA have proposed you've got a ban on bonus offers, enhanced risk warnings, including client win loss ratios, a new client definition splitting retail clients into experienced and inexperienced and obviously leverage constraints. Although the rules will not directly apply to the 130 passported in firms, the FCA will seek to control their behaviour through financial promotions restrictions.

The consultation period ends on 7th March, we're progressing on the basis that this a real consultation and the FCA values input from the industry to help them achieve their policy aims. We're engaging with the FCA during this period and providing data and analysis to them to assist them in this. We agree that a number of these proposals could make a significant difference, but we also do believe the proposals aren't perfect and could be improved and improve client outcomes without the possible unintended consequences. Having said that, we don't intend to have the debate in public and so unfortunately I can't provide details or any detailed thoughts at this stage. Of course the ultimate impact to IG is uncertain for a number of reasons, including; we don't know precisely where the final rules are going to end up, we don't know about the implementation timeframe, nor the grandfathering provisions.

Moving on to slide 17, the European slide, I'm not going to labour the numbers but record clients, record revenue and revenue ahead in all countries. We also launched our stockbroking offering in France to further fill out our offering there. The Swiss office is performing well, in line with our original plan. The chart on the right is interesting, it's a split axis chart, the right-hand axis gives you the total number of European clients we have whilst the left-hand axis shows you the clients in each European branch that we have, so the red dotted line goes to the total number of clients and the dark dotted line shows you clients we have in Europe where we don't have an office. And you can see some pleasing trajectory on that.

Like the UK, Europe is dominated by regulatory transition. We're encouraged by the CYSEC, the Cypriot regulators proposals, which in short ban bonus offers, insist on the same day return of cash, cap leverage at 50 times initially, although you can increase it, and the no negative accounts or limited risk accounts. We're not regulated in Cyprus but we do think this could be important going forward, given the number of firms that the Cypriot regulator does regulate at the moment.

We're pleased with the German BaFin regulator and the French, the AMF, proposals which recognise limited risk as a big part of the solution here. Although country by country conclusions are different, there is clearly coordination at a European, by which we mean ESMA, level. We expect continued updates to the ESMA Q&A throughout the coming year.

We're developing contingency plans, as we said last time, in order to operate in Europe following the Referendum result. Given the FCA proposals these plans are somewhat more urgent.

Looking at Australia, again no surprise in the growing business, records across the board. Revenue ahead by 16% with Q2 revenue 16% ahead of Q1. We also launched our stockbroking offering, which we call Share trading in Australia, back in July. You can see that on the graph on the right. The pale bars, are new stockbroking clients, while the dark bars are existing leveraged accounts. You can see we're now adding around 300 extra clients to IG each month with around 70% of these stockbroking clients entirely new to IG.

The regulatory situation in Australia appears stable but two notable things are happening. Firstly, ASIC is getting the power to insist on full client money segregation, something obviously we've done for many years in Australia and something which we consider a good news event which will force everyone to segregate client money properly.

Secondly, ASIC are getting some product intervention powers across financial services generally which puts them on a par with almost every other financial services regulator around the world.

Turning to slide 19, a good strong growth in revenue, now representing 15% of Group revenue. Growth everywhere except for Singapore which was flat. Worth stating about Singapore that Q2 was 30% up on Q1. Nadex in the South African office are the standout performers, Nadex is performing really very well and continues to grow strongly. You can see that on the graph on the right, I'm afraid it's another split graph with the number of trades on the left and number of active clients on the right and you can see both the lines trending well.

The US operation is profitable at current volumes and like all exchanges it has relatively high fixed running costs but should scale well.

Dubai continues to perform well although it's early in its development. We continue to have discussions with the regulator and expect the outcome of the April 2015 DFSA review to have some impact going forward but we're not giving any more details at this stage.

On the regulatory side we await the Singapore FX leverage tightening from MAS, this was first announced back in 2012 and we think it's been on every presentation since then, so it's a golden oldie in terms of us talking to you about potential change.

I do think it's worth thinking about Singapore for a bit. Let's remember this is consistently the Group's third best office in terms of revenue, despite really not being a big place. Clients are worth as much over their lives as clients from anywhere else in the Group. This is despite some really strong leverage restrictions and really rigorous client onboarding rules. To open an account in Singapore you need a relevant degree or to work in the industry or to perform an external training course to open an account. That is unless you can evidence previous experience. It's not perfect, as a number of clients we get end up getting the experience by going to offshore entities first and then coming to an onshore entity later, which is not the intention and somewhat risky for them, but it is a glimpse about how the world can operate. This clearly suggests that if leverage restrictions do come in it would not be the end of the world, if we can ensure a level playing field.

Also worth mentioning the IOSCO survey from December 2016. It did not contain specific recommendations but does point clearly towards further regulatory convergence outside of Europe.

On this slide, slide 20, I look at limited risk accounts which we talked about back in July and we had it live in every region by Q2 of this year. We were at the time convinced it would be a big part of the future for us on the basis that it improved client outcomes for less experienced clients. We're clearly right about that if you look at the regulatory landscape we're in today. What we do is that we mandate limited risk accounts for less experienced and less wealthy clients. More experienced and wealthy clients can choose to have them if they want, or can choose a more traditional account. In the UK, as an example, half of all the accounts we opened in the second quarter were limited risk accounts. The rest of the world bar usage you can see there is very high, simply because of Nadex where all accounts are limited risk by their very nature.

Worth pointing out that limited risk accounts do convert at a lower rate. This is nothing to do with the type of account, it's simply due to the type of applicant that we put into limited risk accounts. We offer more experienced and wealthy clients who are more likely to convert the standard accounts giving you this entirely expected graph. Early indications suggest the value of an equivalent client is exactly the same regardless of which type of account they have. We think limited risk accounts are a big part of our future.

Looking at slide 21 we look at client recruitment and I have to say, excluding or excepting the regulatory challenges IG is clearly a business in rude health. New clients in H1 were 59% above H1 last year and almost 30% above H2. This graph on the left will be familiar to most people, what it's trying to do is to show you the marketing cost per first trade where we aim to recruit clients at an all-in cost of up to £1,200 and the bars show you the number of first trades that we're managing to achieve. You can see very clearly here that we're managing to hold the cost of acquisitions steady whilst we increase spend and recruit more clients.

If you look at the graph on the right, again you've seen this before, and this is just a continuation of the same thing there are three lines there showing the number of people who have applied for an account, the number of people who have opened an account and the number of people who have traded with us for the first time. We've put a lot of work into this, and improving the conversion funnel and taking friction out has been a really big project to us, and we're really pleased to see that the first two lines are now pretty much moving in lock step. We still have work to do in terms of getting people comfortable with being ready to trade, but this we think is a really positive graph about the performance of the Group.

Also worth saying our client facing staff numbers are up by over 10% and now represent around 30% of total headcount in the Group. And we consider client service to be a key differentiator for a company like us.

Moving onto the next slide, client value; we'll take a little bit more time on this because it's the first time we've actually shown this slide. What we're trying to do is answer the question which I think we're asked by every single visit we ever have on the road, and the question goes something like: as IG extends its reach is it taking on less valuable clients with higher attrition rates? And you've all asked us that in one form or other, and we thought actually it was worth addressing it head on and showing it here.

What we done is we've plotted for the last six years each cohort of clients. We start them all at month zero and we show you how they've progressed throughout the period. And you can see the ones who were FY17 stop just six months in because that's as long we've had them for; the ones for FY16 live for longer and so on. So you can see here what we're saying is this attrition curve is exactly what we've talked to you about in the past and very clearly shows that you have heavy attrition at the beginning and then it flattens out. I think it's quite hard to argue that the clients we're recruiting now are in some way conceptually different from the clients we've historically recruited. So that's attrition.

If you look at cumulative average value this shows you the same thing cut the other way. And what we've plotted there is the £1,200 target marketing cost per first trade, and you can see that we're recruiting clients who pay back the cost of their direct marketing cost within three or four months. You can also see the same lines progressing, going out for a couple of years, and again they bunch slightly less well these lines. The only thing you would say is the more recent clients are at the top end of the graph, although we're not completely sure why. I have to be honest looking at this it's pretty compelling.

If you look at client retention, we continue to develop our technology to retain our clients. Having paid a great deal of money to acquire them it's vital we develop a long-term relationship with them. There is no value whatsoever to IG in a churn and burn business model. We showed the chart last time round, and the story has remained obviously basically the same: you can see here we get 35% of our revenue from clients who have been with us more than five years, and half our revenue from clients who have been with us for more than three years. If you look, compare it to the first half of last year, because we're recruiting so many more new clients the bars at the bottom are getting somewhat bigger in an entirely expected way.

We're also rolling out our new web trading platform progressively. All spread betting clients in the UK have got it, and all new spread betting clients only get it. Clients like the new platform and feedback is very positive. We're going to be rolling out the CFD version of it throughout the coming year.

Worth stressing: this is not a race. Our existing platform is good. We think our new one is better. But the worst thing we can do is force people over on to a new platform before they're ready when they're very happy with the existing one, so we intend to dual run for a very long time, which uses the same tech stack on both so it makes no difference to us.

We've also now rolled out My IG to all users. This enables clients to navigate around the platform much more easily and open additional accounts simply. It also allows them to find educational tools and research, and can be a platform to promote the investment product.

As you all know we purchased Daily FX back in October. It's still very early days but the migration is going well. As expected, conversion levels are low at this stage, but lead generation is exactly as expected and application levels are encouraging. Leads which we get through Daily FX take more time to convert than people who come directly to a trading site ready to convert. Because we only have leads from October they're taking longer to convert than people who come direct to IG, which is what we thought. It will be another six to 12 months before we see the full benefit of this acquisition. It's worth saying that we consider the education offering that is part of Daily FX a really important building block for the future.

So, to conclude: it was a strong first half. There's now a clear pattern for growth. The client recruitment story is pretty hard to miss. Our market investment continues to be very effective and is paying back rapidly. Excluding this market investment costs are up in line with revenue. And although demands on it have increased the balance sheet remains robust. The company is continuing to evolve and to differentiate itself from the competition. Our investments licence is an important milestone here. However there is clearly a tough regulatory backdrop. We do think reform is overdue and we will work very constructively with all the regulatory bodies to improve client outcomes in this industry.

As a final thought, regulatory transition is always tough, but I do believe that the strong compliant operators will be net beneficiaries over the medium term and that we're better positioned than anyone else for this interesting period.

Thank you all very much. Let me hand over to Kieran to compére.

Kieran McKinney – Director of Investor Relations and Corporate Affairs

Thank you Peter. Usual Q&A session: we've got a couple of roving mics, usual format if you can tell us who you are and where you're from that would be very helpful. I'm happy to take the first question. Paul?

Question 1

Paul McGinnis, Shore Capital

Two questions please, Kieran. First of all can you talk about the potential mitigation for getting some of your higher-value clients in particular to elect for a professional designation?

The second one, you referred there to a higher or an equivalent lifetime value of customers in Singapore where leverage limits are already in place. Could you just give us a little bit more in terms of statistics in terms of what the relative churn looks like on an average Singapore client versus a UK client?

Peter Hetherington

First of all you asked about professional clients and whether some of our clients could be classified as professional. Clearly some of our clients could be classified as professional. I think you can see from the graph we gave you earlier showing how long our clients have been with us and how much of our revenue we get from clients who have been with us for a very long time that you can see that we do generally have a pretty experienced set of clients. We're not proposing to break that down at this stage in any way, shape or form.

Kieran McKinney

As Peter said, in terms of value per client it's absolutely bang on the same as the UK today in terms of the average revenue. Churn is lower, it's not materially lower but it is lower, so the lifetime value of those clients is actually slightly higher than the UK today. And that's not a surprise. We would expect something similar to develop with our multi-asset clients over time, so clients who have taken stockbroking and investments, our working assumption is that those clients again will stay around for longer. And similarly in a potential situation of lower or very constrained leverage it's not entirely unreasonable to assume that you'll get a longer lifetime from those clients.

<u>Question 2</u>

Haley Tam, Citigroup

Can I just quickly follow up on that Singapore question since you were kind enough to mention it just to confirm I understand properly? Obviously on slide 19 you've got the revenue per client for the rest of the world which is materially lower than the UK. So the Singapore is exactly the same as the UK, just to confirm that's what you're saying?

Peter Hetherington

I think rest of the world includes Nadex. Nadex clients only trade binaries on exchange. Their average value has always been lower. Nadex is opening a lot of accounts. And you can see it very clearly in that limited risk graph showing the percentage which are limited risk: that's not because we're putting lots of Singaporean clients into limited risk accounts, it's because Nadex is swamping that segment.

Haley Tam

That's very clear, thank you.

Kieran McKinney

Just to add very quickly, hopefully by the end of the year we'll try to break that out. We'll try to split that out so you can see the leveraged business excluding Nadex and excluding stockbroking, and you can see the core leverage and what's happening in there. Paul referred to a statistic earlier which suggested that average revenue per client is significantly different than it looks when you mix them all together. So those businesses are growing quite rapidly and starting to skew that number a little bit, so we'll try and break that out so you can see; Nadex is significantly lower average revenue per client, it's about a fifth of the group average.

Haley Tam

And two quick other questions if I may. Firstly on the binaries, the sprints, you've mentioned in the statement I think it's £15m of revenue from the existing UK clients. Could you give us any more numbers around other binary products, either in the UK or other regions? That would be helpful.

And then the second question was just on the client acquisitions. Reducing the friction of new clients that I think is a key part of the IG story; so perhaps some thoughts from you regardless of whatever the regulatory outcomes might be is that sort of target of £1,200 or breakeven within a certain period of time, say four months, is that something we can expect you to continue to strive for?

Peter Hetherington

See if I can remember them both. If you look in the appendix you get a breakdown which gives you a split across the whole world showing you how important binaries are. What we've actually said with regards to the sprint product it's not stopping doing it in the UK, we've stopped doing it globally for new clients, but existing clients will be able to continue using the product. Therefore we don't in any sense lose the £15m worth of revenue from that, we simply stop adding new clients to it.

The maths is fairly easy; if you look at the percentage revenue by area you can then work out there are only two types of binary therefore you can split them – without me trying to do it in my head – exactly how they break out between the two different parts.

Kieran McKinney

And one thing is that Nadex in the US is probably somewhere between £10m to £12m over that binary revenue so it's entirely separate. That's an on exchange CFTC regulatory exchange so that's entirely separate.

Peter Hetherington

Your second question was around client acquisition and what we were aiming for. There is no magic behind the £1,200 figure whatsoever. It's between three and four months of the expected value of a new client to IG. We like it because we're able to optimise to it and continue to improve our marketing whilst giving a very clear target to our marketeers on it. Rationally if our clients trade with us for north of 20 months on average, or about 20 months on average, you would rationally spend more than four months' worth of the expected revenue on their acquisition. But what we find is that by holding it at that level the growth is pretty significant still, it is a reasonable operational challenge in order to service those clients well and to scale our customer service teams and our customer facing teams and to do everything right, we don't really want to go faster for fear of actually introducing inefficiencies into the funnel.

Does that answer it?

Kieran McKinney

Any more questions in the room?

<u>Question 3</u>

Alistair Ross, Investec

Just quickly on the binaries question: if we think that sprint is 15 and Nadex is ten to 12, is that included in those pie charts? If we think the total is roughly 12 or 13 the rest is other?

Kieran McKinney

As Peter said the other is the other binary, the vol based.

Peter Hetherington

The original binary.

Alistair Ross

Roughly 7%, just roughly.

Peter Hetherington

Yes.

Alistair Ross

And then can you give us a flavour just in terms of margin on those pie charts, just on the binaries, is it vastly different to the rest of the Group?

Kieran McKinney

No, it's not.

Alistair Ross

It's similar.

Kieran McKinney

It is so difficult to break out individual margin by product. But we are entirely agnostic on what clients trade. You should assume the same drop-through rate on any of the products.

Alistair Ross

Secondly, in terms of customer concentration, I know you've given various pointers in terms of customer concentration, can you give us an update on customer concentration if you have a stat?

Kieran McKinney

Easy update, it hasn't changed; it's been the same for forever. What we've always said is in any trading period around 50% of the revenue will come from the 2% of the clients who are most active in that period, recognising that that's a moving, flexing set of people. It's a mathematical output. It's been the same forever and I suspect it will be the same forever, and it's the same pretty much across the globe country by country as well. There's no fundamental differentiation.

Alistair Ross

Just a quick follow up. In terms of profit by geography is it vastly different by geography?

Kieran McKinney

No. You can see it in our annual report. You can see the breakdown. It's not vastly different; it is different depending on the maturity of the geography. As a general rule your more mature geographies are somewhat higher margin; less mature geographies are somewhat lower margins, as you're growing on a fixed cost base. But it's not a big swing. The EBITDA margin is somewhere between 40% and 60% depending on the particular geography you're looking at.

Any final ones? I'll leave it to you Peter to say thank you and goodbye.

Peter Hetherington

Thank you and goodbye.